IMPLEMENTATION OF INITIATIVE 601

(Chapter 2, Laws of 1994)

Senate Ways & Means Committee

January 9, 1995

Provisions Taking Effect Immediately (December 1993):

- **Restrictions on Administrative Fee Increases**

  State agencies cannot increase fees by an amount greater than the "fiscal growth factor" without prior legislative approval. The "fiscal growth factor" is the 3-year average rate of population increase and inflation. The factor for Fiscal Year 1994 is 7.11 percent, 6.21 percent for Fiscal Year 1995, and 5.13 percent for Fiscal Year 1996.

  Implementation Issues:

  ♦ Restriction does not apply to fees set by statute.

  ♦ Restriction does not apply to local government fees.

  ♦ Restriction does not apply to newly established fees.

  ♦ "Fee" is not defined in the initiative.

  ♦ "Prior legislative approval" is not defined.

  ♦ Restriction applies on annual basis and is not cumulative ("use it or lose it").

- **Restrictions on Tax Increases**

  The state cannot increase existing taxes, impose new taxes, or make revenue-neutral tax shifts without voter approval at a November election. (This restriction expires when the remainder of the initiative takes effect on July 1, 1995.) Tax increases that are likely to be subject to this restriction include the enactment of a new tax, the extension of an existing tax that is scheduled to expire, the repeal of an existing tax exemption, or the broadening of the base of an existing tax.

  Implementation Issues:

  ♦ Restriction does not apply to local taxes.

- "Tax" is not defined in the initiative.
- Pending litigation on repeal of tax exemption for gasohol (ESHB 2326).

Provisions Taking Effect On July 1, 1995:

- **General Fund--State Expenditure Limit**

  The annual growth in state General Fund expenditures is limited to the average rate of population increase and inflation during the prior three fiscal years.

  Implementation Issues:

  - Spending limit does not apply to federal funds or dedicated accounts.
  - Limit must be adjusted downward to reflect any program costs that have been shifted out of the General Fund since January 1, 1993, and any revenue shifts that occur after July 1, 1995.
  - After July 1, 1995, shifts in federal funds will result in both upward and downward adjustments to the limit.
  - Spending limit is calculated on an annual (fiscal year) basis.
  - Initiative requires OFM to calculate the limit each November.
  - In future biennia, the expenditure limit will be recalculated to reflect actual expenditure levels in prior biennia.

- **Exceeding the Expenditure Limit**

The General Fund expenditure limit may be exceeded under two circumstances:

(1) If two-thirds of the Legislature approve new taxes, and the new taxes are approved by the voters at a November election.

(2) For natural disasters if a bill declaring an emergency is approved by a two-thirds vote of the Legislature and signed by the Governor.

Implementation Issues:

- A natural disaster must be an event requiring "government action to alleviate human suffering and provide humanitarian assistance."

- **Restrictions on Revenue**

Any legislative action after July 1, 1995, that increases state revenue will require a two-thirds vote of the Legislature. In addition, if the legislative action will exceed the GF-S expenditure limit, voter referral is required.

Implementation Issues:

- Does the supermajority requirement apply to taxes outside the General Fund?

- Do fee increases require a supermajority vote? (The Attorney General says no.)

- What rules apply to votes during the 1995 session to increase taxes, effective after July 1, 1995? (The President of the Senate has ruled that the supermajority vote requirement does not apply to actions of the 1995 Legislature, regardless of the effective date of the bill being considered.)

- **Reserve Funds**

The Budget Stabilization Account is abolished and two new reserve funds are created. The first account (the **Emergency Reserve Fund**) will receive all GF-S revenue in excess of the expenditure limit, up to a maximum of 5 percent of biennial GF-S revenues (approximately $900 million). Moneys in this account may be appropriated with a two-thirds vote of the Legislature, but only if the expenditure is within the GF-S expenditure limit.

The second account (the **Education Construction Fund**) will receive the spill-over from the first account, and may be appropriated (by a simple majority) to K-12 and higher education construction projects. Moneys in this account may be spent for any other purpose with a two-thirds vote of the Legislature and voter approval.

- **Mandates on Local Government**

  The Legislature cannot impose on local governments the cost of new programs (or increased levels of service under existing programs) without a specific appropriation to fully reimburse the local government for the costs of the program.

  Implementation Issues:

  - Not all local costs imposed by the state will necessitate reimbursement. The costs must be the result of a "new program" or "an increased level of service" under existing programs.

  - Does the reimbursement requirement apply to acts of the 1995 Legislature?